

Ontario Ministry of Treasury, Economics and Intergovernmental  
Affairs. Taxation and Fiscal Policy Branch  
Highlights of the Ontario Budget  
Government  
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# Highlights 1974 Ontario Budget

*The Honourable John White*  
*Treasurer of Ontario*



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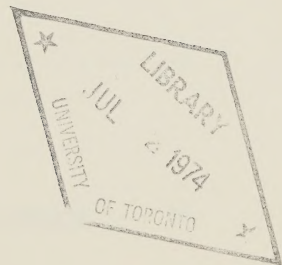


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HIGHLIGHTS OF THE 1974 BUDGET

THE HONOURABLE JOHN WHITE  
TREASURER OF ONTARIO



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## THE BUDGET THEME

Ontario will provide leadership in beating back inflation by initiating a course of forceful action which includes:

- . NEW MEASURES TO OFFSET THE EFFECTS OF INFLATION
- . NEW MEASURES TO RESTRAIN INFLATION
- . NEW MEASURES TO STIMULATE SUPPLY
- . NEW MEASURES TO SHARE WITH THE PUBLIC THE PROFITS FROM INFLATION
- . NEW MEASURES TO SHARE RESOURCES WITH LOCAL GOVERNMENTS.

Success in controlling inflation will depend on the cooperation of the wage earner, the consumer and the businessman. But it will also depend greatly on leadership and action by the federal government to puncture the myth that inflation is inevitable, and to restore confidence in the belief that every Canadian will share in rising prosperity.

I. MEASURES TO OFFSET THE EFFECTS OF INFLATION

Guaranteed Annual Income System - \$75 MILLION

Ontario will set up a guaranteed annual income system (GAINS) in July to benefit 311,000 low-income people:

- . people of retirement age and
- . recipients of Provincial social assistance who are blind or disabled
- . whose income falls below the guaranteed levels of \$50 weekly for a single person and \$100 weekly for a married couple.

GAINS recipients will also receive Ontario tax credits.

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Monthly Benefits, starting July 1, 1974

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	Private Income	OAS/GIS	GAINS	Guaranteed Income
	\$	\$	\$	\$
Single Pensioner	0	191.06	25.61	216.67
	10	186.06	20.61	216.67
	20	181.06	15.61	216.67
	30	176.06	10.61	216.67
Pensioner Couple	0	364.49	68.84	433.33
	20	354.49	58.84	433.33
	40	344.49	48.84	433.33
	60	334.49	38.84	433.33

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Free Drugs - \$12 MILLION

Free prescription drugs will be available to pensioners receiving the Guaranteed Income Supplement and to social assistance recipients, beginning in September, 1974.

Enriched Tax Credits - \$70 MILLION

Improvements to ensure that maximum benefits flow to those most in need:

- . The Property Credit will be doubled to \$180 and the Pensioner Credit increased to \$110
- . The maximum credit entitlement will be raised from \$400 to \$500
- . The offset rate will be increased from one to two per cent of taxable income.

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FAIR SHARES UNDER THE ONTARIO  
TAX CREDIT SYSTEM

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Example 1

Married taxpayer with 2 children under 16.  
Property tax of \$500 or rent of \$2,500.

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Gross Income	Taxable Income	Ontario Credits	
		1973	1974
\$ 5,000	\$ 612	\$172	\$256
8,000	3,432	144	199
10,000	5,312	125	162
12,000	7,192	106	124
15,000	10,012	78	68

---

Example 2

Married taxpayer with 2 children under 16.

Property tax of \$750 or rent of \$3,750.

Gross Income	Taxable Income	Ontario Credits	
		1973	1974
\$ 5,000	\$ 612	\$197	\$281
8,000	3,432	169	225
10,000	5,312	150	187
12,000	7,192	131	150
15,000	10,012	103	93

Example 3

Single taxpayer, 65 years of age.

Property tax of \$300 or rent of \$1,500.

Gross Income	Taxable Income	Ontario Credits	
		1973	1974
\$ 4,000	\$ 1,128	\$236	\$295
6,000	3,128	216	255
8,000	5,128	196	215
10,000	7,128	176	175
12,000	9,128	156	135
15,000	12,128	126	75

Example 4

Married couple, both 65 years of age.

Property tax of \$350 or rent of \$1,750.

Gross Income	Taxable Income	Ontario Credits	
		1973	1974
\$ 4,000	\$ 0	\$268	\$368
6,000	1,636	252	335
8,000	3,636	232	295
10,000	5,636	212	255
12,000	7,636	192	215
15,000	10,636	162	155

Tax Cuts for Consumers - \$43 MILLION

The retail sales tax will be removed from a broad range of household cleaning and personal hygiene items:

- . dust and spot removers
- . laundry bleaches, starch, blueing, pre-soaks, rinses, fabric softeners, borax and other preparations for laundering clothes
- . polishes, waxes and conditioners for floors and furniture
- . powders and liquids for cleaning walls, floors, tiles, glass, metal, cooking utensils, ovens, sinks, rugs, upholstery, toilets, drains and septic tanks
- . shoe cleaning and polish preparations
- . soaps and detergents
- . facial and toilet tissues
- . hand cleaning preparations
- . personal deodorants
- . toothpastes, tooth powders, non-electric toothbrushes, denture cleaners, denture adhesives and dental floss
- . sanitary pads and tampons
- . shaving soaps and creams
- . skin care preparations for babies.

The retail sales tax will also be removed from shoes and other footwear costing \$30 or less.

The changes will take effect after the necessary legislation is passed by the Legislature. Ontario's exemptions are more extensive than those granted by any other Canadian province employing sales taxes, or by neighbouring U.S. states.

## II. MEASURES TO RESTRAIN INFLATION

Ontario is introducing three important measures to stabilize land prices, to maximize Canadian ownership of Ontario real estate and to freeze transit fares.

### Land Speculation Tax - \$25 MILLION

A new land speculation tax will be imposed at a rate of 50 per cent on owners of land in Ontario who buy and sell property without adding any real value. Full details of this new tax, including important exemptions, can be found in the Budget Statement, pages 5-7, and in Appendix A to the Statement.

### Land Transfer Tax - \$60 MILLION

Non-residents of Canada who purchase property in Ontario will be taxed at a new higher rate of 20 per cent. Full details of this change can be found in the Budget Statement, page 8, and in Appendix A to the Statement.

### Transit Fare Freeze - \$14 MILLION

Ontario will enrich its financial support of public transit to 50 per cent of operating losses. Municipalities will be required to freeze transit fares at their present levels.

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Ontario's Support of Local Transit Operations  
(\$ million)

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	1971-72	1972-73	1973-74	1974-75
Operating Subsidies	4.8	12.4	18.4	35.0
Capital Grants	-	-	17.3	20.0
Subway Construction Grants	16.7	17.5	14.9	30.9
Total Financing Support	21.5	29.9	50.6	85.9

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IMPACT OF THE LAND TRANSFER  
TAX ON A TYPICAL TRANSACTION

- 100 acres of raw land is purchased at \$10,000 per acre.
- Land transfer tax for a Canadian buyer is 3/10 of 1 per cent on the first \$35,000 and 6/10 of 1 per cent on the balance of the purchase price.
- Land transfer tax for a non-resident of Canada is 20 per cent of the purchase price.

	<u>Canadian Buyer</u>	<u>Non-Resident Buyer</u>
Purchase Price	\$1,000,000	\$1,000,000
Land Transfer Tax	+ 5,895	+ 200,000
	<hr/>	<hr/>
Acquisition Cost	\$1,005,895	\$1,200,000

ADVANTAGE TO CANADIAN

PURCHASER

\$194,105.



IMPACT OF THE LAND SPECULATION  
TAX ON A TYPICAL TRANSACTION

- 100 acres of land is purchased at \$10,000 per acre and sold 1 year later at \$15,000 per acre without any improvements being added.
- Both purchase and sale transactions are for cash, the land yields no income, and municipal property tax of \$20,000 is the only cost of holding the property.
- The taxpayer is a Canadian individual who trades in land and is taxed at the top marginal income tax rate.

	<u>Without Speculation Tax</u> \$	<u>With Speculation Tax</u> \$
Acquisition Cost*	1,005,895	1,005,895
Proceeds of Sale	1,500,000	1,500,000
Increase in Value	494,105	494,105
Less Eligible Deductions	<u>(20,000)</u>	<u>(20,000)</u>
Speculative Gain	474,105	474,105
LAND SPECULATION TAX		
@ 50 per cent	nil	237,053
Taxable Income	474,105	237,052
Income Tax Payable		
@ 61.3 per cent	290,626	145,313
After Tax Profit	183,479	91,739
Return on Investment	18.35%	9.17%

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\* Includes \$5,895 in land transfer tax.

COMBINED TAX IMPACT ON LAND SPECULATORS

- 100 acres of land is purchased at \$10,000 per acre and sold 1 year later at \$15,000 per acre without any improvements being added.
- Land transfer tax for a Canadian buyer is 3/10 of 1 per cent on the first \$35,000 and 6/10 of 1 per cent on the balance of the purchase price.
- Land transfer tax for a non-resident of Canada is 20 per cent of the purchase price.
- Both taxpayers are trading in the land and are taxed at the top marginal income tax rate.

	<u>Canadian Individual</u> \$	<u>Non-Resident Individual</u> \$
Purchase Price	1,000,000	1,000,000
Proceeds of Sale	1,500,000	1,500,000
Holding Costs (property tax)	<u>(20,000)</u>	<u>(20,000)</u>
Profit Before Land Taxes	480,000	480,000
LAND TRANSFER TAX	5,895	200,000
LAND SPECULATION TAX	237,053	140,000
Taxable Income	237,052	140,000
INCOME TAX PAYABLE @ 61.3 per cent	145,313	85,820
Profits After All Taxes	91,739	54,180
Return on Investment	9.17%	5.41%

III. MEASURES TO STIMULATE SUPPLY

Small Business Tax Credit - \$15 MILLION

Canadian corporations qualifying for the federal small business deduction will be eligible for an ONTARIO income tax credit:

- . This new incentive will generate tax savings to finance small business expansion in plant, inventory and similar assets.

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Example of Ontario's Small Business Tax Credit

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	\$
Paid-up capital in 1973	500,000
Paid-up capital in 1974	580,000
Increase in paid-up capital	80,000
Taxable income	100,000
Ontario income tax before credit	12,000
Credit - lesser of:	
5% of increase in capital	\$4,000
50% of Ontario income tax, maximum	\$3,000
	3,000
Ontario income tax payable	9,000

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Venture Investment Corporations - \$6 MILLION

Two major problems encountered by small business are availability of venture equity capital and its high cost:

- . Ontario is encouraging the formation of Venture Investment Corporations to help overcome these problems
- . Corporations investing in a VIC will be allowed to deduct such investment against their taxable income
- . The Treasurer has invited the federal government to parallel this important initiative.

Municipal Water and Sewerage Grants - \$11 MILLION

To increase the supply of serviced lots, the Government is extending to restructured municipalities a 15 per cent grant for water and sewerage projects.

Mortgage Investment Corporations

Ontario will parallel the federal tax treatment of MIC's. This will encourage the flow of funds into the residential mortgage market from small investors.

Capital Tax on Family Farms - \$250,000

The capital tax on family farm corporations will be reduced to a flat \$50.

Succession Duties and Family Farms - \$6 MILLION

- . Family-held mortgages and promissory notes will be eligible for forgiveness of farm duty and for the gift tax exemption in respect of family farms
- . Farmers will be able to make once-in-a-lifetime gifts in several annual instalments
- . To ensure that succession duties do not bear on citizens of average means, the basic exemptions will be increased by 50 per cent - this brings to \$150,000 the size of an estate which is free of duty.
- . Interspousal transfers, of course, remain tax free.

Details of these measures can be found in the Budget Statement, pages 10-14, and in Appendices A and B to the Statement.

IV. MEASURES TO SHARE PROFITS FROM INFLATION

The Government will introduce new measures to secure for the public a larger share of profits from mining and forestry resources.

Mining - \$50 MILLION

Revenue from the mining tax will be doubled by introducing the following graduated rates in place of the present 15 per cent flat rate:

<u>Mining Profits</u>	<u>Marginal</u>
<u>\$</u>	<u>Tax Rate</u>
	<u>%</u>
up to 100,000	0
100,000 - 1 million	15
1 million - 10 million	20
10 million - 20 million	25
20 million - 30 million	30
30 million - 40 million	35
over 40 million	40

A number of related changes in income and capital taxes on mines will be made, and exploration and development incentives will be strengthened.

Timber - \$12 MILLION

Crown dues from the cutting of timber on Crown lands will be doubled. A task force will be established to design a new tax system more responsive to changes in forestry industry profits.

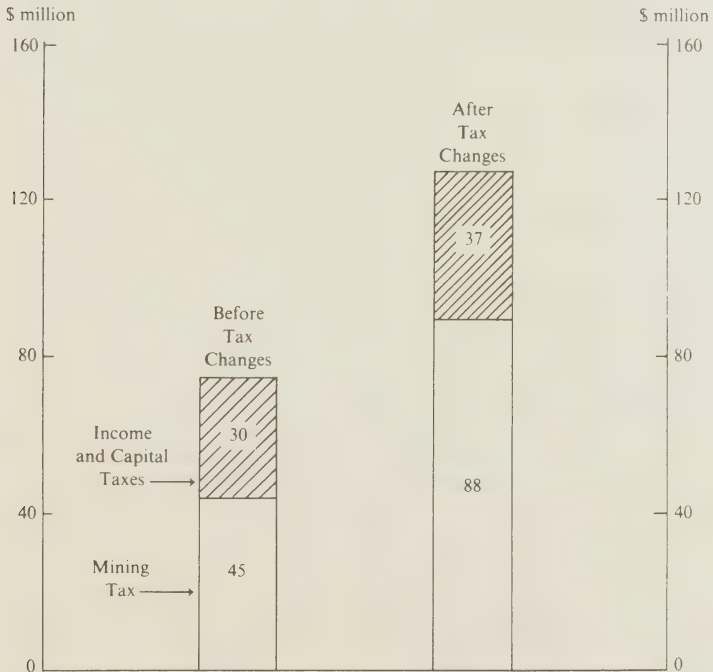
Full details of these changes can be found in the Budget Statement, pages 14-19, and in Appendix A to the Statement.



Average Mining Tax Rates  
at Various Profit Levels

<u>Mining Profits</u> (\$ million)	<u>New</u> <u>Average Tax Rate</u> (%)	<u>Present</u> <u>Mining Tax Rate</u> (%)
2	16.8	15
4	18.4	15
6	18.9	15
8	19.2	15
10	19.4	15
20	22.2	15
30	24.8	15
40	27.3	15
50	29.9	15
60	31.6	15
70	32.8	15
80	33.7	15
90	34.4	15
100	34.9	15

Estimated Ontario Revenue  
from The Mining Industry, 1974



V. MEASURES TO SHARE RESOURCES WITH LOCAL GOVERNMENTS

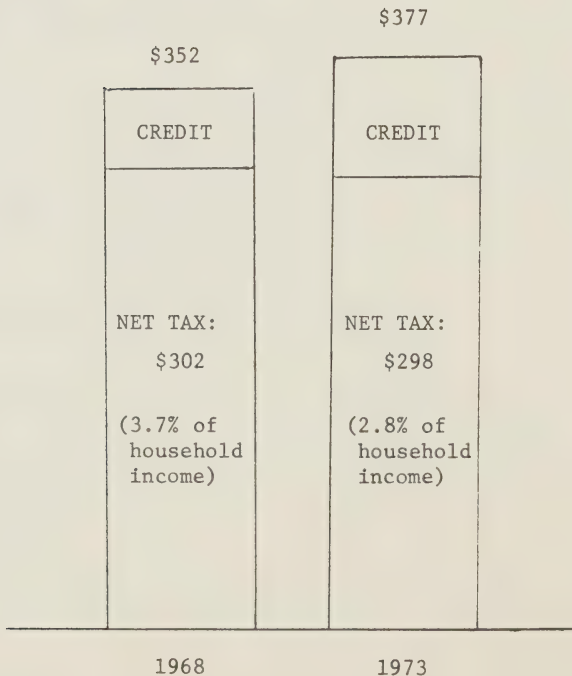
Six Years of Reform

Ontario's tax reform program introduced in 1969 has:

- . strengthened the structure of local government
- . doubled financial support to \$2.4 billion
- . ensured a substantial benefit to local taxpayers in reduced property taxes.

As a result, net property tax burdens are lower today than six years ago. Trends in local government finance are examined in Budget Paper B.

AVERAGE PROPERTY TAXES IN ONTARIO



New Initiatives

- . \$124 million in new assistance to local governments will be provided by the Property Tax Stabilization Plan and enrichment in other forms of aid
- . building on the success in reducing mill rates in 1973, the incentives to restrain spending will be strengthened.

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Overall Net Gains to Local Government - 1974  
(\$ million)

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Grant Program	Increased Transfer
Resource Equalization Grant	15
General Support Grant	33
Northern Ontario Special Support	4
Main Per Capita Grant	11
Per Capita Grant Towards Policing Costs	17
Transit and Rural Roads	24
Other Grant Enrichments	20
Total	124

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Full details of these measures can be found in the Budget Statement, pages 17-24, in Appendix B to the Statement and in supplementary report, Ontario Budget 1974: Property Tax Stabilization Program.

VI. FINANCIAL PLAN FOR 1974-75

Financial Overview

The 1974-75 financial plan targets for:

- . a neutral economic impact with spending growth of 14.2 per cent
- . tax increases of \$147 million balanced by tax cuts of \$140 million
- . stable net cash deficits
- . a substantial reduction in the public debt resulting from cash receipts in excess of cash disbursements and from decreases in liquid reserves.

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1974-75 Financial Plan  
(\$ million)

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	Interim 1973-74	Estimated 1974-75	Percent Increase
Budgetary Revenue	6,883	7,716	12.1
Budgetary Expenditure	<u>7,304</u>	<u>8,341</u>	14.2
Budgetary Deficit	421	625	
Non-budgetary Deficit	<u>300</u>	<u>83</u>	
Net Cash Requirements	<u>721</u>	<u>708</u>	

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### Debt Reduction

After a decade of financing rapid growth and expansion in essential public services and financial aid to municipalities, the financial integrity of the Province of Ontario is as sound as ever. It would now require less than six months revenue to pay off the debt compared with nine months revenue a decade ago:

- . in 1973-74 outstanding public debt was reduced by \$225 million
- . for 1974-75 the Treasurer has announced a debt reduction target of \$449 million.

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#### 1974-75 Debt Reduction Plan (\$ million)

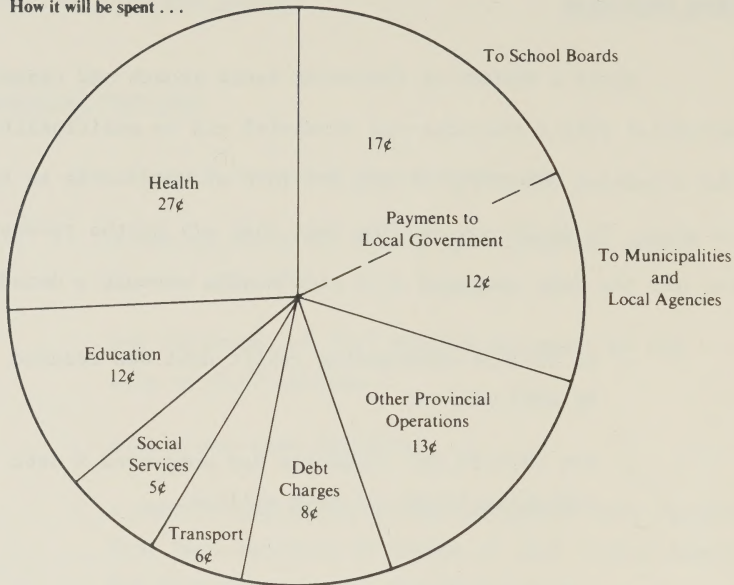
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Cash Flows from Pensions Plans, etc.	1,044
Less 1974-75 Cash Requirements	708
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A. Surplus cash for retirement of outstanding public debt	336
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Current liquid assets	993
Target liquid assets, April 1, 1975	880
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B. Target rundown in liquid assets	113
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Total target reduction in public debt (A + B)	449
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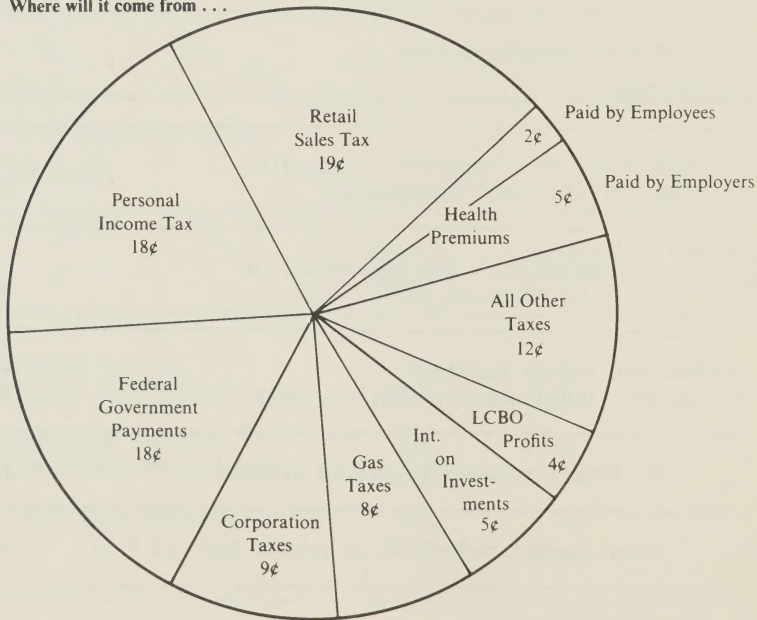
# THE BUDGET DOLLAR

## Fiscal Year 1974-75 Estimates

How it will be spent . . .



Where will it come from . . .









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